

ANNUAL REPORT

1984-85

Alberta
LABOUR
Pension Benefits Branch

ALBERTA LABOUR

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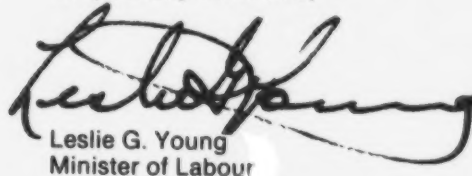
July 1985

Her Honor The Honourable Helen Hunley
Lieutenant-Governor of the Province of Alberta

Madam:

I have the honour to present to you the Annual Report of the Pension Benefits Branch of the Alberta Department of Labour for the fiscal year ended March 31, 1985. The report is submitted in accordance with section 6(2) of the Pension Benefits Act.

Respectfully submitted,



Leslie G. Young
Minister of Labour





LABOUR
Labour Division
Pension Benefits Branch

10808 - 99 Avenue, Edmonton, Alberta, Canada T5K 0G2 403/427-8322

July 1985

The Honourable Leslie G. Young
Minister of Labour
Room 404, Legislative Building
Edmonton, Alberta

Dear Mr. Young:

I have the honour to present to you the Annual Report of the Pension Benefits Branch for the fiscal year ended March 31, 1985. The report outlines the role and responsibilities of the Pension Benefits Branch and the activities undertaken during the period under review.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "E.V. Groch".

E.V. Groch
Superintendent of Pensions



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Pension Benefits Branch

Roles and Responsibilities

The Pension Benefits Branch of the Alberta Department of Labour is responsible for the administration of the **Pension Benefits Act**, which came into force on January 1, 1967. The principal objectives of the Act are to safeguard employees' rights to benefits promised under pension plans and to encourage the establishment, maintenance and improvement of pension plans in Alberta.

With the exception of certain exempted pension plans identified under section 21 of the Regulations, the Act requires that every pension plan covering employees in Alberta be registered with the branch in order to ensure that each plan complies with the terms and conditions of the Act throughout its lifetime.

In accordance with the Act, the branch can refuse to register pension plans that do not qualify and can cancel Certificates of Registration previously issued. Branch staff monitor pension plans to ensure that they are administered correctly, that pension plan funds are sufficient to cover earned benefits, and that pension plan monies are prudently invested and managed. A brief description of the main provisions of the **Pension Benefits Act** is contained in the Appendix on page 19 of this report.

As authorized by section 5 of the **Pension Benefits Act**, the Alberta Government is a party to two agreements, one with the Government of Canada, and one with other provinces that have legislation similar to Alberta's Act. Both agreements provide for reciprocal registration, audit, and inspection of pension plans and the reciprocal enforcement of laws affecting those plans. Under these agreements, a pension plan subject to the legislation of more than one authority is supervised by the authority having jurisdiction over the greatest number of plan members. This means the branch carries out the duties and responsibilities of other authorities in cases where reciprocal agreements apply.

The branch is also the repository for trust agreements relative to employee benefit plans filed under section 151 of the **Labour Relations Act**. Filed trust agreements and amendments are reviewed for possible inadequacies or inconsistencies with regard to the intent and purpose of the agreement.

With respect to trust agreements that have been authorized or sanctioned by a collective agreement and filed with the Minister of Labour, section 151 of the **Labour Relations Act** provides that a trustee is not personally liable for his or her actions as a trustee unless it can be proven that the trustee was dishonest or did not act in accordance with the terms of the trust agreement.

Regulation of Pension Plans

Plans Examined and Approved

As outlined in Table 1 on page 15, the Pension Benefits Branch examined 343 new pension plans during the 1984-85 fiscal year. Of these, 341 received a Certificate of Registration. This represents the largest number of new plans

receiving a Certificate of Registration in any one fiscal year since the effective date of the **Pension Benefits Act**, except for the first two fiscal years of the branch ending March 31, 1968 and March 31, 1969.

Graph 1 on page 18 shows that from 1970 to 1982 the number of new plans registered remained fairly constant, with an average of 84 new plans being registered in any one year. Since 1982, the number of plans registered has increased greatly in number and has averaged 302 per year.

The main reason for this large increase in registered plans was a decision by Revenue Canada, Taxation to accept pension plans that primarily provide benefits to significant shareholders of companies and their relatives. Of the 341 plans that received a Certificate of Registration in the 1984-85 fiscal year, 273 plans, or 80 per cent, provided benefits primarily to significant shareholders.

Under reciprocal agreements entered into with other governments, eight plans were transferred to the jurisdiction of Alberta, and three were transferred from Alberta to other jurisdictions. During the year under review, 758 amendments were approved to plans supervised by the branch.

As of March 31, 1985, the branch was responsible for the supervision of 1763 pension plans, which included 32 plans awaiting approval for registration. Graph 2 on page 18 shows that on that date the branch was responsible for the supervision of the highest number of pension plans since its inception. The increase in supervised plans since 1980 is due mainly to the large number of new registered plans that provide benefits primarily to significant shareholders, and also to the fairly constant number of plans being discontinued.

Discontinued Plans

Table 2 on page 15 shows that 105 plans supervised by the branch, covering 872 Alberta employees and 559 employees in other provinces, were discontinued. Thirty-two plans, covering 291 employees, were discontinued because of financial problems experienced by employers. Eighteen of these 32 plans provided benefits primarily for significant shareholders. This compares to 25 plans discontinued in fiscal year 1983-84, 11 plans discontinued in fiscal year 1982-83 and 5 plans discontinued in fiscal year 1981-82 because of financial problems of employers. During 1984-85, 16 plans were discontinued because there were no remaining members.

Eleven plans were discontinued because they merged with other pension plans, and the affected plan members had their benefits transferred to the other registered plans. These 11 plans covered 730, or 51 per cent of the 1431 plan members affected by plan discontinuances in the 1984-85 fiscal year. This means that continued pension plan coverage ceased for only 701 employees. Of the 105 plans discontinued in 1984-85, 43 provided benefits primarily for significant shareholders.

Contributions to Plans

As outlined in Table 3 on page 16, contributions to pension plans supervised by the branch during the 1984-85 fiscal year totalled almost \$276 million. This represents a decrease of approximately 10 per cent from total contributions in the previous year.

Total employee contributions increased by approximately 10 per cent to \$60.5 million from the previous fiscal year's total of \$54.9 million.

Total employer contributions dropped to \$215.1 million, representing a decrease of approximately 14 per cent from the total employer contributions in the previous fiscal year. The decrease in employer contributions was due mainly to the utilization of surplus funds to offset required employer contributions.

In a number of plans, surplus monies resulted both from favourable investment performance and from experience better than that assumed by the actuary. Some plans used surpluses to wholly or partly offset required employer contributions and in some cases to provide for plan benefit improvements. In certain plans with large surpluses, the branch gave approval for a refund to the employer of a portion of the surplus generated by employer contributions. Approval for such refunds was given in respect of 20 plans. The total amount refunded was approximately \$10 million. This compares to a total of \$58 million refunded to 11 plans in the 1983-84 fiscal year.

Jurisdiction of Plan Membership

Altogether, 227 402 employees were covered by the 1763 pension plans supervised by the branch. This represents a decrease of approximately two per cent from the total employees covered in the previous fiscal year. This decrease was attributable to the decrease in the number of employees employed in other jurisdictions. Of the 227 402 employees, approximately 33 per cent were employed in other jurisdictions.

The number of Alberta employees covered by plans supervised by the branch increased approximately one per cent from the previous fiscal year to 153 024. The average number of members in each plan was approximately 129.

The 341 new plans that received a Certificate of Registration in the period covered in this report included 2177 employees, of whom 1900 were employed in Alberta. The 273 plans that primarily provided benefits to significant shareholders covered 567 employees for an average of only two employees per plan. The average number of members in each new non-significant shareholder plan was approximately 24.

Table 4 on page 16 provides further details on the number of employees covered by pension plans supervised by the branch.

Plan Vesting Provisions on Termination of Employment

Approximately 36 per cent of all pension plans supervised by the branch require 10 or more years of service or 10 or more years of plan membership for vesting. These plans cover 75 per cent of all plan members. All pension plans must at least provide for vesting in accordance with the minimum requirements in the *Pension Benefits Act* for Alberta employees. For members employed outside of Alberta, pension plans must at least provide for vesting in accordance with the requirements of legislation in the applicable jurisdictions.

As in previous years, the most frequently encountered vesting provision on termination of employment was 10

years of service or 10 years of plan membership. Approximately 23 per cent of the pension plans supervised by the branch, covering about 54 per cent of all plan members, require 10 years of service or 10 years of plan membership for a plan member to qualify for vesting of benefits on termination of employment or termination of plan membership.

Approximately 47 per cent of all plans supervised by the branch provide for immediate vesting. However, these plans cover only two per cent of all plan members. The vast majority of these plans are pension plans that primarily provide benefits to significant shareholders of companies. Table 5 on page 17 provides further details on the vesting provisions of pension plans supervised by the branch.

Type of Benefit Provided

Table 6 on page 17 shows information on the type of benefit provided by pension plans supervised by the branch. Particularly interesting is the fact that approximately 55 per cent of all plan members are covered by plans providing flat dollar benefits, which are usually based on years of service. Flat benefit pension plans represent only about four per cent of all plans supervised by the branch. They contrast with money purchase pension plans which represent about 69 per cent of all plans but which cover only seven per cent of all plan members.

Money purchase pension plans are most common to employers who have a small number of employees on staff. These plans are easier and less costly to administer than other types of plans. Since 1981, Revenue Canada, Taxation has required that all new pension plans that primarily provide benefits to significant shareholders of companies be money purchase pension plans. This has contributed to the establishment of a large number of money purchase pension plans with a very small number of members.

Flat benefit pension plans are most commonly found in the construction, food and retail industries, and the vast majority are multi-employer negotiated pension plans administered by a board of trustees.

Of the 341 new plans that received a Certificate of Registration in the period covered by this report, 322, or 94 per cent, were money purchase pension plans. However, these 322 plans covered only 52 per cent of the 2177 employees covered by the 341 new plans registered in fiscal year 1984-85.

Canadian Association of Pension Supervisory Authorities

Legislation similar to the *Pension Benefits Act* of Alberta has been enacted by the governments of Canada, Newfoundland, Nova Scotia, Quebec, Ontario, Manitoba, and Saskatchewan. Authorized representatives of the various authorities are members of the Canadian Association of Pension Supervisory Authorities (CAPSA). The association generally meets twice a year to review all aspects of pension plans and pension legislation. Its chief concern is to promote uniformity in legislation and interpretation of various acts with similar provisions. The most recent member to join CAPSA is Newfoundland, which enacted legislation similar to the *Pension Benefits Act* effective January 1, 1985.

A committee of CAPSA, the Standing Committee of Superintendents, also meets on a regular basis. In addition to reviewing administrative concerns related to the pension legislation and conducting studies on behalf of CAPSA, the committee reviews new developments and problem areas, and identifies courses of action that can be taken. Its proceedings and recommendations are reported to CAPSA.

Regular meetings of CAPSA and the Standing Committee of Superintendents have resulted in a high degree of co-operation between jurisdictions. The meetings contribute to the maintenance of uniform legislation and promotion of similar administrative procedures in various jurisdictions. Persons involved in the pension benefits field have benefited from this co-operation.

By open invitation, representatives of other jurisdictions considering the enactment of pension legislation attend meetings of CAPSA from time to time. CAPSA met twice during the period covered by this report.

In fiscal year 1984-85, four committees of CAPSA continued their work in developing revised rules for investment of pension funds, solvency and funding, multi-employer pension plans and the jurisdictional reciprocal agreements. Alberta is a member of the CAPSA committees on multi-employer pension plans and reciprocal agreements. In addition, considerable effort was applied by CAPSA to ensure the uniform development of a number of other pension-related issues.

Other Activities

As in previous years, the branch dealt with a large number of pension-related enquiries from the public. When requested to do so, the branch provided assistance to employees, employers, insurance and trust company officers, consultants and lawyers. Enquiries from employees usually dealt with non-receipt of payments under pension plans or with uncertainties involving benefit rights. Enquiries from people providing pension services, such as consultants, invariably related to the requirements of the **Pension Benefits Act**. People who provide pension services were particularly interested in knowing whether certain actions are legally possible within the parameters of the legislation. The branch also dealt with a large number of enquiries relating to what changes may be made in the near future to the **Pension Benefits Act** and the effective date of any changes that may be made.

In accordance with the reciprocal agreements entered into with other governments, the branch exerted considerable effort to ensure that plans were amended to comply with legislative changes enacted by various authorities outside Alberta. During the period covered by this report, the most extensive legislative changes were those made to Manitoba's pension legislation. The changes were effective January 1, 1985.

The branch also provided assistance to a number of government departments on various matters relating to pensions, the retirement income system, and employee health and welfare benefit plans. In addition, branch staff served as speakers at public pension meetings and seminars and assisted pension plan administrators in tracing the whereabouts of terminated plan members entitled to benefits. A brochure outlining the functions of and services provided by the Pension Benefits Branch was produced and distributed to the pension industry and the general public.

Amendments to the Pension Benefits Act

No changes were made to the *Pension Benefits Act* or Regulations during the period covered by this report.

Pension Legislative Review

The private pension plan system has been the subject of considerable public interest and debate over the last decade. Several major reports and studies have been completed by various governments and the private sector. These reports and studies have provided a comprehensive analysis of a variety of concerns and have offered a number of alternatives for improvement of existing private pension plans. Staff of the Pension Benefits Branch has been actively involved in assessing and discussing the issues relating to private pension plans.

In addition, Branch staff has recommended the changes necessary to ensure that private pension plans continue to play an integral role in the overall retirement income system and effectively meet the changing social and employment needs of Albertans.

On May 11, 1984 the Government of Alberta released a policy paper outlining proposals for improving the effectiveness of the private pension plan system in Alberta.

The paper was distributed to employers, consultants, the pension industry, special interest groups and to the general public. Public meetings were held in five Alberta cities to outline the proposed changes and to hear the views of the public. Written comments or submissions were also requested and 67 submissions were received.

Provincial ministers responsible for private pension plan legislation met in June and December of 1984 to discuss the proposed changes relating to private pension plans and to develop a consensus on as many issues as possible in order to achieve optimum uniformity of legislation across Canada. In addition to attending these meetings of ministers, branch staff also participated in several meetings of provincial officials.

On March 26, 1985 the branch distributed a discussion paper to the multi-employer pension plan industry regarding proposed amendments to the *Pension Benefits Act* in respect to multi-employer pension plans. The Act was drafted primarily with single employer plans in mind and requires changes to accommodate some special features of multi-employer pension plans. The branch will consult with the multi-employer pension plan industry and other jurisdictions to develop any necessary changes.

The branch continued its development of amendments to the legislation, however some policy issues and a number of technical issues have yet to be resolved with the pension industry and the other jurisdictions. Many employers are waiting until amendments to legislation are implemented before they make any improvements to their pension plans.

Operating Costs and Revenue

Operating costs of the branch for fiscal year 1984-85 amounted to \$351 558.

Revenue, derived from fees charged in respect of Applications for Registration and Annual Information Returns, amounted to \$36 984.

Table 1
Pension Plans Approved, Discontinued, Transferred or Amended
During the Year Ended March 31, 1985

	Total at March 31, 1983*	Total at March 31, 1984*	Change During Year	Total at March 31, 1985*
Plans Examined	3 128	3 445	343	3 788
Plans Approved for Registration	3 036	3 351	341	3 692
Plans Transferred to Alberta Supervision	132	138	8	146
Plans Transferred from Alberta Supervision	147	151	3	154
Plans Discontinued (Registration Cancelled)	1 838	1 944	105	2 049
Amendments to "Approved" Plans	9 340	10 053	758	10 811
Annual Information Returns**	21 041	22 243	1 439	23 682
Cost Certificates***	6 496	7 340	495	7 835

* These columns show totals since January 1, 1967.

** An Annual Information Return is submitted in respect of every pension plan and provides data regarding contributions to the plan, plan membership, terminations and retirements.

*** A Cost Certificate is submitted every three years and when plan changes affecting the funding and solvency of the plan occur. The Cost Certificate provides data regarding the liabilities and assets of the plan and describes the contributions required to fund the benefits provided under the plan.

Table 2
Reasons for Discontinuance of Pension Plans
During the Year Ended March 31, 1985

Reason for Discontinuance	Total at March 31, 1983*	Total at March 31, 1984*	Change During Year	Total at March 31, 1985*
No Reason Given - Employer's Request	502	522	22**	544
Replaced by New Plans	420	443	19	462
No Members Left in Plan	266	290	16	306
Non-Approval by Revenue Canada, Taxation	287	287	1	288
Company Dissolved	178	186	10	196
Financial Problems	128	153	32	185
Non-Compliance	32	34	4	38
Not Required to Register and Duplicate Registration	25	29	1	30
TOTAL	1 838	1 944	105	2 049

* These columns show totals since January 1, 1967.

** The 22 plans shown in this category consisted of:

8 "Significant Shareholder" Plans	20 members
1 "Salaried and Executive" Plan	1 member
13 "All Employees" Plans	123 members
TOTAL	144 members

Of the 144 members covered:

24 transferred the value of their entitlement to Registered Retirement Savings Plans

43 received cash

64 received deferred life annuities

13 had no contributions made to the plan on their behalf, as the plan was cancelled on its effective date.

Table 3
Contributions to Pension Plans
Supervised by the Pension Benefits Branch
During the Years Ended March 31, 1983, 1984 and 1985

	1983	1984	1985
Employee Required Contributions	\$ 42 567 504	\$ 46 821 571	\$ 49 592 942
Employee Voluntary Contributions	5 958 416	8 071 031	10 917 306
Total Employee Contributions	\$ 48 525 920	\$ 54 892 602	\$ 60 510 248
Employer Current Service Contributions	\$177 767 190	\$207 308 529	\$179 473 631
Employer Past Service Contributions	35 228 410	41 227 381	32 578 863
Employer Special Payments	1 514 163	2 794 693	2 998 333
Total Employer Contributions	\$214 509 763	\$251 330 603	\$215 050 827
TOTAL CONTRIBUTIONS	\$263 035 683	\$306 223 205	\$275 561 075

Table 4
Jurisdiction of Plan Membership for Pension Plans
Supervised by the Pension Benefits Branch
at March 31, 1983, 1984 and 1985

	1983		1984		1985	
	#	%	#	%	#	%
Alberta	147 202	66.7	151 664	65.1	153 024	67.3
Quebec	23 752	10.8	25 802	11.1	22 436	9.9
British Columbia	16 454	7.5	16 628	7.1	16 724	7.4
Ontario	13 298	6.1	19 443	8.4	16 076	7.1
Manitoba	10 201	4.6	8 991	3.9	8 760	3.8
Saskatchewan	6 003	2.7	6 296	2.7	6 304	2.8
Nova Scotia	2 535	1.1	2 559	1.1	2 394	1.0
Newfoundland	513	0.2	511	0.2	535	0.2
Yukon & Northwest Territories	50	—	122	0.1	297	0.1
New Brunswick	264	0.1	259	0.1	234	0.1
Prince Edward Island	26	—	15	—	26	—
Outside Canada	491	0.2	561	0.2	592	0.3
TOTAL	220 789	100.0	232 851	100.0	227 402	100.0

Table 5
Vesting on Termination of Employment or Plan Membership
at March 31, 1984 and 1985

Conditions to Qualify for Vesting*	1984				1985			
	Plans		Members		Plans		Members	
	#	%	#	%	#	%	#	%
Immediate vesting	619	40.0	4 017	1.7	824	46.8	4 471	2.0
5 years or less of service or membership	205	13.3	39 485	17.0	247	14.0	34 623	15.2
6 - 9 years of service or membership	52	3.4	10 957	4.7	57	3.2	17 167	7.6
10 years of service or membership	415	26.8	126 482	54.3	400	22.7	123 768	54.4
11 - 19 years of service or membership ...	100	6.5	16 455	7.1	85	4.8	12 551	5.5
20 years or more of service or membership	42	2.7	4 545	2.0	39	2.2	4 668	2.1
Service or membership and/or age	6	0.4	4 021	1.7	11	0.6	4 426	1.9
No vesting other than that required by legislation **	107	6.9	26 889	11.5	100	5.7	25 728	11.3
TOTAL	1 546	100.0	232 851	100.0	1 763	100.0	227 402	100.0

* Plans are classified on the basis of the vesting conditions applicable to employees who leave before completion of the minimum vesting conditions prescribed by legislation. These minimum legislative conditions apply to an employee who satisfies one of the following conditions:

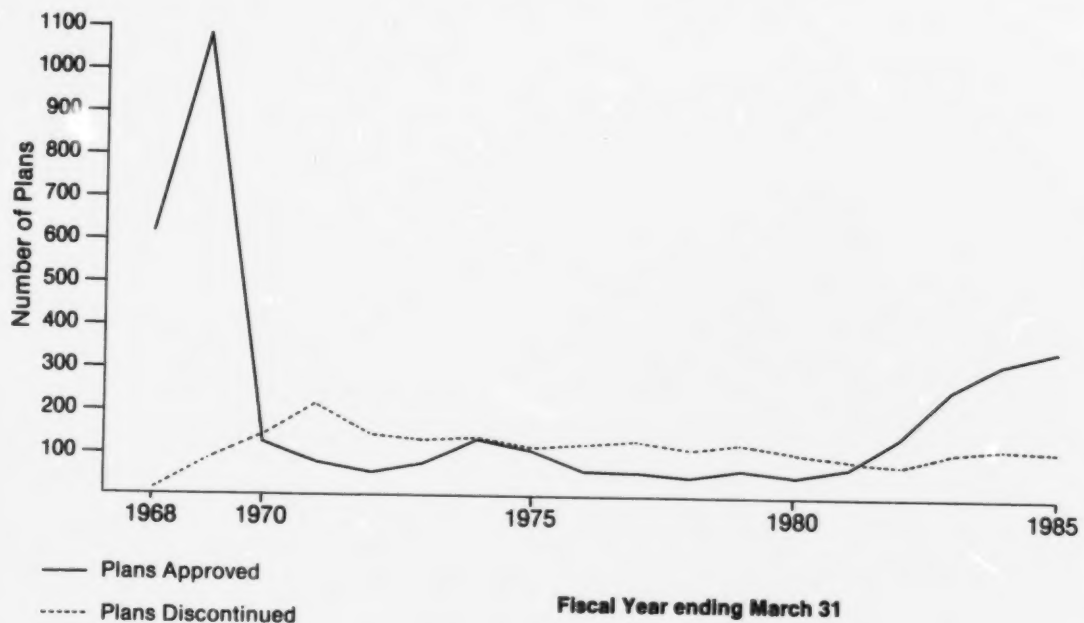
- (a) is employed in a jurisdiction that has pension legislation, and has completed 10 years of service or membership and is 45 years of age or older,
- (b) is employed in Saskatchewan, has completed one year of service or membership, and age plus years of service or membership equals 45,
- (c) is employed in Manitoba and has completed 5 years of service or membership.

** Plans that have no vesting other than the legislative requirements outlined in note (*) above.

Table 6
Plans and Members by Type of Benefit
at March 31, 1984 and 1985

Type of Benefit	1984				1985			
	Plans		Members		Plans		Members	
	#	%	#	%	#	%	#	%
Unit Benefit								
Final Average Earnings	82	5.3	20 582	8.8	71	4.0	18 949	8.3
Average Best Earnings	191	12.4	42 484	18.2	198	11.2	44 321	19.5
Career Average Earnings	190	12.3	22 464	9.7	175	9.9	19 410	8.5
Total Unit Benefit	463	30.0	85 530	36.7	444	25.1	82 680	36.3
Money Purchase	987	63.8	16 296	7.0	1 218	69.1	16 262	7.2
Profit Sharing	21	1.4	956	0.4	24	1.4	1 595	0.7
Flat Benefit	67	4.3	127 331	54.7	72	4.1	124 600	54.8
Composite	8	0.5	2 738	1.2	5	0.3	2 265	1.0
TOTAL	1 546	100.0	232 851	100.0	1 763	100.0	227 402	100.0

Graph 1
Plans Approved and Discontinued 1968-1985



Graph 2
Plans Supervised 1968-1985



Appendix

Main Provisions of the Pension Benefits Act, in General Terms

The *Pension Benefits Act* (Chapter P-3 Revised Statutes of Alberta 1980) came into force January 1, 1967. In general terms, the main provisions of the Act are as follows:

1) Vesting

A member of a pension plan who, upon ceasing to be employed by an employer, has attained age 45 and has either completed 10 years of continuous service with the employer or been a member of the plan for such period, whichever occurs first, is entitled to the pension benefits earned under the plan in respect of service since January 1, 1967. These pension benefits are payable only as a life annuity commencing at retirement age.

Neither the value of the life annuity nor any contributions the employee was required to pay towards the cost of this annuity is available in cash. In addition, this entitlement cannot be assigned, surrendered, alienated, seized or attached.

Because of these provisions, the true purpose of pension plans, which is to provide income for retirement years, is upheld.

2) Funding

Each year the employer is required to pay into the pension fund sufficient monies to cover the cost of the benefits earned in that year. In addition, where a liability exists because of (1) the granting of benefits for prior service, or (2) experience different from that assumed by the actuary, annual special payments designated to liquidate the liability within a specified number of years must be paid into the pension fund.

The maintenance of a fund ensures that pension monies are kept separate and distinct from assets of the employer.

3) Investment

Insurance companies are limited by federal legislation with respect to their investments. The securities in which pension funds may be invested are also, for the most part, subject to these limitations.

An additional restriction is that not more than 10 per cent of the book value of the fund may be invested in securities relative to any one corporation. Seven per cent of the fund may be invested in unqualified securities. These limitations are intended to reduce the risk of fund diminution through investment losses.

4) Explanation to Employees

The employer is required to provide each member of the pension plan with a written explanation of the terms and conditions of the plan and amendments thereto. This ensures that plan members are made aware of their rights and duties under the plan as well as the benefits they may become entitled to.